USDA

Fact Sheet

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Permanent Normal Trade Relations With China
What's at Stake for Corn?

China's successful entry into the World Trade Organization (WTO) will dramatically cut import barriers currently imposed on American agricultural products, including corn. The bilateral WTO accession agreement China signed with the United States locks in structural reforms, tariff-rate-quotas, lower tariffs, and ends export subsidies--all concessions that represent a significant opportunity to increase U.S. corn exports. China currently maintains a costly, non-market, and artificial system to stimulate corn production. In recent years, agricultural exports have increased and imports have declined. But the Chinese Government cannot afford to continue this strategy and, as the WTO agreement is implemented, structural reform and market liberalization will result in export opportunities for U.S. corn to China and mean less competition with China in third-country markets.

Congress must grant China permanent normal trading relations (PNTR) status in order to guarantee that American agriculture benefits from the concessions the United States negotiated bilaterally under the WTO. Even if Congress fails to approve PNTR, China will likely become a member of the WTO. Failure to grant China PNTR would mean that our Asian, European and Latin American competitors would enjoy these benefits while American agriculture would lose out.

The Market

China has increased corn production dramatically in the past 10 years (almost 50 percent), in response to high domestic support prices. It is the world's second largest corn producer, after the United States, with total output estimated for 1999/2000 at 128 million tons. Much of China's corn is grown in northeast provinces and the North China Plain. About 75 percent of production is used for animal feed and the balance for food and industrial use.

In anticipation of its entry into the World Trade Organization and to stem overproduction, China has lowered corn protection prices and initiated a phasing out of government purchases of low-quality corn. The impact on production will become clearer in mid-2000 after planting season. The most likely outcome if lower prices are realized will be reduced planted area, reduced production, increased consumption, and higher imports.

Currently, access to the Chinese corn import market is very restricted. The China National Cereals, Oils, and Foodstuffs Import and Export Corporation (COFCO), a state trading entity, controls the market allowing only minimal imports through a non transparent quota system.

The Opportunities

- When China accedes, it will establish a tariff-rate-quota (TRQ) of 4.5 million tons, rising to 7.2 million tons in 2004. Twenty five percent of this market opportunity will be reserved for the private sector initially rising to 40 percent by 2004. The United States and China have agreed on specific rules for TRQ administration to maximize the possibility that TRQ's fill. Unutilized quota amounts will be reallocated to other importers. The in-quota rate will be 1 percent and the out-of-quota rate will be reduced from 80 to 65 percent by 2004.

- China has agreed to eliminate all agricultural export subsidies. This commitment would level the playing field in third-country markets for U.S. exports of corn, which in the past have been displaced by unfairly traded Chinese exports.

- China committed to cap and reduce trade-distorting domestic subsidies. The specific levels will be determined through multilateral negotiations in Geneva. China also committed to provide greater transparency to make its domestic support measures more predictable.

- U.S. companies will be able to more freely market, distribute, and provide sales services through China's liberalized distribution system, a primary commitment sought by U.S. agricultural exporters. China now generally prohibits companies from distributing imported products, an obstacle that will remain in place without PNTR. China's distribution commitment, phased in over three years, is comprehensive, covering commission agents services, wholesaling, retailing, franchising, sales away from a fixed location, as well as related subordinate activities such as inventory management.

The Bottom Line for the U.S. Corn Industry

- Meat consumption is growing 5 percent annually in China, but is still below other Asian markets and will continue to rise. As China reforms its grain sector to meet its WTO commitments, grain production is likely to decline and higher meat demand will mean increased imports of animal feed inputs such as corn.

- When it accedes to the WTO, China will become a substantial corn importer again, especially as its trade-distorting export subsidies will end. Today, because of its highly protected domestic market and high support prices, China is only a marginal importer and a major competitor, exporting 4-8 million tons a year. China has committed to cap and reduce trade-distorting domestic subsidies, which will lower its domestic prices, decrease production, and open the market to greater competition from suppliers such as the United States.

- In 1998/99, about 20 percent of U.S. corn production was exported. The bottom line is that a large share of each corn farmer's income depends on export sales. Increasing export markets for U.S. corn is critical to the future viability of the farm economy.

- In 1998, U.S. feedgrain exports of $5.5 billion supported nearly $11 billion of total economic activity in agriculture and related industries. These exports contributed over 74,290 jobs to the nation. Corn accounted for about 85 percent of total feedgrain exports. Iowa, Illinois, Nebraska, and Indiana are the leading corn-producing states. The rest of the economy gains from corn exports through supplying inputs, export services, storage, transportation, insurance, finance, and other related services.